



THE FEDERAL HR EDGE



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FEB Makes A Splash Into Sea of Ideas on Human Capital Reform

Federal Agency Receives Award for Efforts

By Karen Russell

In July, the Honolulu-Pacific Federal Executive Board released a report and action plan fueled by the Board's desire to address the human capital challenge that is shared by all federal agencies, in the Pacific region and beyond. The FEB's extensive research and report was the basis of a winning nomination of the agency for FPMI's annual HR/EEO Best Practices Award.

The FEB views the current human capital crisis as a significant opportunity to modernize several aspects of federal government employment. The report, the Honolulu-Pacific Federal Executive Board's Interagency Workforce Shaping Initiative, gives ideas to benefit not only federal agencies in the Pacific region, but also to reinforce and stimulate debate at the national level for a more strategic and flexible human resources approach that would empower federal employees to better serve their customers.

The report and its Strategic Action Plan are the result of in-depth research and agency stakeholder discussions and offer an innovative and effective model for interagency cooperation to resolve the human capital crisis. A number of broad legislative actions are proposed and endorsed by the FEB.

Honolulu, with 76 federal agencies and 70,000 civilian and military personnel co-located within the same area, could become a "demonstration laboratory" for interagency cooperation and resources sharing to solve the human resources management challenge, states the report.

The report, designed to be a strategic roadmap for shaping the federal workforce in the Pacific region, contains 43 recommendations for action at both local and national levels to drive federal workforce shaping. Local initiatives include:

- establishing a Pacific Leadership Development Academy;
- developing a guidebook to help the general public apply for federal jobs;
- educating managers to take maximum advantage of human resources flexibilities;
- agency resource sharing on recruiting and advertising critical skills shortages; and
- expanding on-site interagency training opportunities.

The centerpiece of the Workforce Shaping Plan is the recommendation to establish a Pacific Leadership Development Academy, *Continued on page 2...*

INSIDE...

- Scared to look at your TSP returns? Don't worry — take a look inside at the latest returns, you may be happy (unless you are in the C, S or I funds, of course). See the July returns in the HR Briefs beginning on page 3.
- Outsourcing, outsourcing outsourcing! That's all you hear in the federal sector any more. But guess what? The private sector is doing it too! See more on page 6.
- Find out what actions some, including Chief Justice William Rehnquist, believe are necessary for reform of the government's personnel system during hearings conducted recently by the National Commission on the Public Service on page 7.
- Find out what direction OPM is heading with highlight of the agency's 2002-2007 Strategic Plan. See "OPM Circulates Draft Strategic Plan" on page 8.

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which would provide professional leadership training for all federal agencies in the Pacific region. The Academy is expected to become instrumental in enabling federal agencies to effectively attract, retain and train the next generation of leaders and managers to replace the loss in leadership skills and corporate memory. (Those interested in more information in the Academy or wishing to be added to the Academy mailing list should contact the Honolulu-Pacific FEB at hpfeb@aloha.net or 808-541-2637.)

At the national level, the FEB suggests several legislative initiatives designed to enhance recruitment and retention, such as:

- obtaining greater compensation flexibility through pay banding, cafeteria benefits, removal of time-in-grade requirements, permanent buyout authority and a broadening of retention allowance criteria;
- more direct hiring processes through recruitment flexibility, including elimination of the "rule of three" in favor of a categorical ranking system, the authority to recruit outside of Title 5, and conversion of temporary and term employees to permanent appointments without competition; and
- resolving the growing retirement inequity of federal employees outside of the continental U.S. through locality-based comparability pay.

Increased flexibility in compensation and benefits packages is an important management tool in competing with the private sector for the best talent. The Office of Personnel Management recognizes in its White Paper report that compensation is broader than just money, stating that "the time may have come to recognize that [the merit] principle might be equally well served by simpler, more flexible practices designed to fit a particular organization and workforce."

The retirement annuity inequity affects federal employees in Hawaii and Alaska and those working outside the continental U.S. (OCONUS) who do not receive locality-based comparability pay. The FEB report states this retirement inequity is the most pressing problem facing federal employees in these areas, and acts as a disincentive for other federal employees to take jobs in the Pacific region.

The retirement inequity for OCONUS federal employees results from the fact that the cost of living allowance and post differential paid to workers in OCONUS areas are not credited when computing retirement annuities for these employees. Federal workers on the continental U.S. are paid locality pay that is included in their base pay for computation of their retirement annuity, resulting in the average employee's retirement annuity in OCONUS areas lagging behind their CONUS counterparts by \$250 a month; at the managerial level, the annuity lag can exceed \$600 a month. Over 20 years, this annuity gap can cost retired senior civilian employees over \$100,000.

In addition, when employees retire in Hawaii, Alaska and other non-CONUS areas, their income is reduced by 50 percent because they lose COLA and face a significant annuity shortfall even though they live in high cost areas. Hawaii-based federal employees met recently with Sen. Daniel Akaka (D-Hawaii) to express support for his work with the Senate Governmental Affairs Committee in addressing an OPM proposal that provides a means for fixing the retirement annuity inequity.

Personnel management demonstration projects provide a means for testing and introducing beneficial changes in governmentwide human resources management systems. Under the program, a federal agency can obtain authority from OPM to waive existing federal HR management law and regulations to propose, develop, test and evaluate interventions for its own HR management system. The FEB sees a need for and supports expanded demonstration projects and an increase in the range of HR flexibilities they allow.

OPM has stated its support for proposals to simplify and streamline the current process for demonstration projects. The proposed *Federal Workforce Management Improvement Act* would provide a mechanism to make tested innovations permanent; to permit other agencies to adopt them; and to allow an agency to create a permanent Alternative Personnel System that maintains merit system principles and other core values.

The report maintains that the best human resources strategic direction is to develop and deploy a variety of suggested tools to help maintain, sharpen and replace workforce skills, keeping agencies' career development pipelines open and moving. When employed in concert, these human resources tools should adequately address most future recruitment, retention and leadership development needs.

If taken advantage of, the modernization of human resources management should help enhance the federal government as an employer of choice and increase the overall effectiveness of federal agencies. The FEB's strategic action plan, if executed, has the potential to effectively enhance every agency's ability to recruit, retain and develop the right people with the right skills to meet their future operational and customer service requirements.

As a result of its comprehensive initiative, the Honolulu-Pacific Federal Executive Board's Workforce Shaping plan has been selected to receive FPMI's annual HR/EEO Best Practices Award for 2002. The award is given to an organization that has shown outstanding innovation and creativity in the provision of HR, EEO and related services. This year's award will be presented to the FEB at FPMI's 7th Annual HR/EEO Forum in Phoenix, Ariz. Sept. 10-12. For more information on the Forum, visit <http://www.fpmi.com/conf>.



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JULY THRIFT SAVINGS PLAN RETURNS ANNOUNCED

Rates of return on Thrift Savings Plan funds were updated Aug. 5, showing the F fund as the best-faring fund over July 2002 with an increase of 1.19 percent. Over the past 12 months, the F fund has shown returns of 7.72 percent.

The other positive performer, the G fund, also showed positive returns of 0.43 percent for July, with a return of 5.27 percent over the last year.

On the down side, the C fund showed a negative 7.7 percent for the month and negative 23.63 percent for the past 12 months. The S and I funds were also unimpressive during July, with a negative 9.93 percent and negative 9.99 percent, respectively. Over the last 12 months, the S fund has shown a return of negative 17.34 percent, while the I fund trails close behind with a negative 17.1 percent return.

The monthly G, F, C, S, and I Fund returns represent the actual total rates of return used to allocate monthly earnings to participant accounts. Allocations are usually completed by the 4th business day of the month. The returns are shown after deduction of accrued TSP administrative expenses. The F, C, S, and I Fund returns also reflect the deduction of trading costs and accrued investment management fees. To see the latest monthly returns, and all the TSP returns for the past several years, visit the FPMI web site at www.fpmi.com/pr/TSPMonthly.html.



FEDERAL TRAVELERS TO SEEK SHELTER — AT CERTAIN PROPERTIES

Beginning in November, federal travelers will be required to first consider government-con-

tracted hotels before others when traveling inside the continental U.S.

The requirement is part of the General Services Administration's new Federal Premier Lodging Program. FPLP is a corporate lodging program for federal employees where, in the nation's most-traveled-to federal destinations, GSA's Office of Governmentwide Policy contracts directly with individual lodging properties that agree to reserve a certain number of rooms for federal travelers at rates guaranteed to be at or below established lodging per diem rates. FPLP is a new process OGP is using to set more realistic, market-oriented per diem rates in areas that have traditionally been too expensive for federal travelers but are located where they need to conduct their official business.

FPLP provides travelers guaranteed rooms with guaranteed rates, and lodging choices among quality properties at desired locations. These FPLP properties are also to ensure that rooms are available to the federal traveler throughout the entire year.

GSA's Travel Management Policy is planning to award contracts for the Federal Premier Lodging Program in the top 75 locations.

OPM CLARIFIES MISUNDERSTANDING IN LTC UNDERWRITING APPLICATION

OPM recently clarified language in the Long-Term Care Insurance Program full underwriting application form used by those individuals applying for coverage under the federal government's first-ever long-term care insurance program. The program is sponsored by OPM, with John



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Hancock and MetLife working together to administer the program under Long Term Care Partners, LLC.

The clarification is designed to eliminate confusion in the area of exclusions from the program. In other words, individuals with certain prior illnesses or medical conditions may be excluded from coverage under this program. Previous language indicated that any individual who has been diagnosed with or treated for any form of cancer could be excluded from coverage under this program. However, the revised language now clarifies that individuals with a history of basal cell cancer or squamous cell cancer of the skin will not be excluded from coverage under the long-term care insurance program.

Individuals have until Dec. 31 to sign up for long-term care insurance. For more information on this program, view the web site at www.LTCFEDS.com.

GAO REPORT HIGHLIGHTS PERFORMANCE MANAGE- MENT INITIATIVES

As federal government agencies consider reforms to their performance management systems, a new report released by the General Accounting Office provides insights from other countries on the use of such systems to create a results-oriented organizational culture.

GAO talked with key human capital decision makers from Australia, Canada, New Zealand and the United Kingdom, including national audit offices, central management and human capital agencies, line agencies, and representatives of employee associations to identify how they are strategically using their performance management systems to:

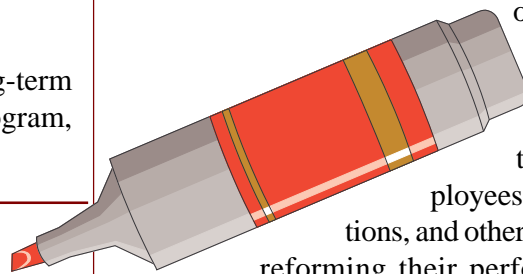
- * Create a “line of sight” between individual and organizational goals - Agencies use performance agreements to align and cascade organizational goals with

individual performance;

- * Use competencies to provide a fuller assessment of individual performance - Agencies complement assessments of the results achieved by an individual with a consideration of the skills and abilities used to achieve them;

- * Link pay to individual and overall organizational performance - Some agencies award sizable individual performance pay based on clear criteria, and in some cases, also emphasize the achievement of organizational goals, while others identified challenges with linking pay to performance; and

- * Foster organization wide commitment to results-oriented performance management - Agencies recognize the importance of top leadership commitment and actively involved employees, unions or associations, and other stakeholders when reforming their performance management systems.



For more information on the report, Results-Oriented Cultures: Insights for U.S. Agencies from Other Countries’ Performance Management Initiatives, visit www.gao.gov.

EVERSON CONFIRMED AS OMB DEPUTY DIRECTOR FOR MANAGEMENT

The U.S. Senate recently unanimously confirmed President Bush’s appointment of Mark W. Everson as deputy director for management for the Office of Management and Budget. The deputy director for management will provide government-wide leadership to Executive Branch agencies to strengthen federal management and improve program performance.

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Everson will additionally serve as chair of the President's Management Council and lead this team of cabinet department and major agency chief operating officers in effectively implementing the President's Management Agenda. As deputy director for management, Everson will also have an important role in transition planning for the new Department of Homeland Security.

Everson has served as controller of the Office of Federal Financial Management since November 2001. Formerly, Everson was the group vice-president of finance for SC International Services, Inc., a private Dallas-based food services company. From 1988 to 1998, Everson held several financial and operating positions with Pechiney, one of France's largest industrial groups.



OMB INSTRUCTS AGENCIES TO ARRANGE FOR NON-GPO PRINTING

The White House's Office of Management and Budget has ordered 130 federal departments and agencies using the Government Printing Office to arrange their own printing as of Sept. 1, reported *The Washington Post* recently.

GPO is a 141-year-old institution responsible for printing documents produced by the federal government, including passports, bills passed in Congress, Supreme Court rulings and the annual U.S. budget. GPO is responsible for managing these and many other government pamphlets.

GPO is legally mandated as the sole clearinghouse for most federal documents — about 70 percent of the work is later contracted out to private printers.

GPO prints about 150,000 tons of paper every year. OMB's directive will mean the GPO will lose two-thirds of the agency's annual \$712 million in revenue and about half its workforce, or 1,500 jobs.

OMB Director Mitchell E. Daniels Jr. said the move could save taxpayers as much as \$50 million a year. "The time has come for the executive branch to liberate its agencies from a monopoly that unfairly penalizes taxpayers," he said when the directive was announced in May.

Michael DiMario, public printer and head of the GPO, disputes this claim, according to *The Post*, saying he believes forcing each department to duplicate GPO's expertise in contracting private work will waste money. DiMario is supported by the major library associations, which are fearful that without the GPO in charge it will be even more difficult to trace government documents. Also opposed to the change is Printing Industries of America, the largest printing trade association, saying that bidding to each agency will put its primarily small businesses at a disadvantage.

An associate director of the Washington office of government relations for the American Library Association was quoted as saying if the GPO were not in charge, fewer government documents would be publicly available.

However, Daniels stated the GPO is an aging monopoly in need of reform, and that the best way to do that is to open it up to competition, and that GPO will win out in competition with smaller businesses if the agency is as cost-effective as it claims.

Congress has reportedly shown its disapproval of the plans in three recent reports accompanying the Senate legislative branch appropriations bill and the Senate and House Treasury, Postal Service and general government bills.

By Gary Koca,
Staff Writer

HR Outsourcing — The Private Sector Is Doing It Too

Outsourcing human resources is a current hot topic among federal agencies. Federal agencies are being asked to downsize administrative staff, and, not surprisingly, human resources management functions are featured prominently if you take a look at almost any federal agency's FAIR Act report. Moreover, a recent conference held in late July in Washington D.C. centered on the topic of HR outsourcing for federal agencies.

In our frame of reference, we tend to think that federal agencies are the only organizations that are dealing with the topic of outsourcing human resources management. But, reinforced by several articles in recent trade publications, the same thing is taking place in the private sector. In fact, companies have been outsourcing elements of HR for decades.

Here is how it generally goes: Dubbed "business-processing outsourcing," the concept is to relieve a company of all or nearly all of its human resources functions. HR typically retains the top run of staff to provide strategic functions, while the transactional aspects of the HR department become the responsibility of the outsourcing company. Experts have valued the current market for outsourcing private sector HR operations at about \$8 billion annually, but there are predictions that that figure could triple by 2005.

Just a couple of examples include the following: AT&T recently agreed to outsource its HR functions to Chicago-based Aon Corporation. American Express outsourced most of its HR functions to Pittsburgh-based Mellon Financial Corporation. Some good advice from one HR executive involved in that transition is the following: "Companies need to look at how much time they're spending on strategy, and consulting with the executive team, versus the time spent on pure adminis-

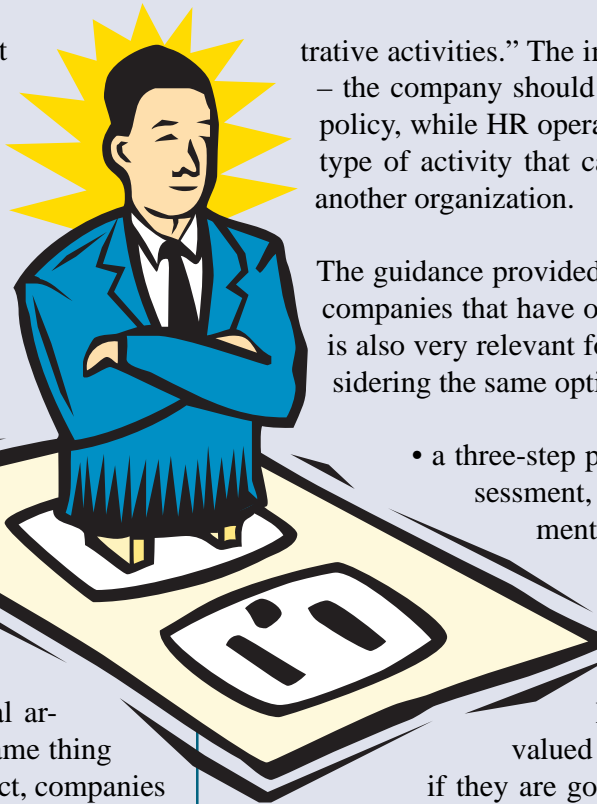
trative activities." The implication there is clear — the company should retain HR strategy and policy, while HR operations is more likely the type of activity that can be contracted out to another organization.

The guidance provided by these private sector companies that have outsourced HR activities is also very relevant for federal agencies considering the same option. These include:

- a three-step process that includes assessment, negotiation, and implementation;
- communicating with employees early and often about the decision to outsource. Employees need to be valued and cared for, especially if they are going to become employees of the outsourcing company, because they may be thinking, "Why should I care what happens? I'm not going to be working here anymore";
- deciding what type of management and oversight should take place; and
- the cost of outsourcing HR activities.

Some members of the organization may believe that outsourcing human resources costs too much. However, Rebecca Scholl, senior analyst at Gartner Dataquest who has been following this movement closely, says, "That's often because the company doesn't have good tools to measure internal costs. A lot of them are hidden within other departments."

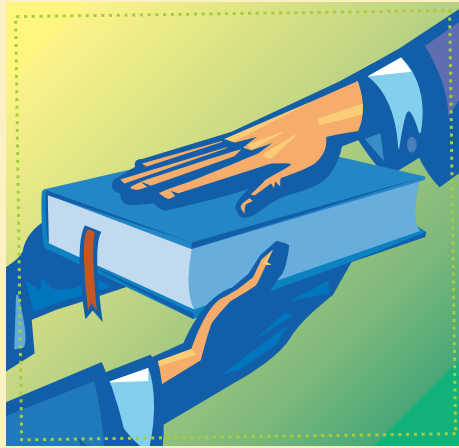
The type of HR outsourcing being discussed for and by federal agencies is certainly no stranger to the private sector. The factors involved in whether or not to outsource and, if so, how to do it successfully, are basically the same whether for private sector companies or the federal government.



Volcker Commission Witnesses Push Reform

By David Hornestay

Chief Justice William Rehnquist led a parade of witnesses advocating reform of the government's personnel system during three days of hearings conducted recently by the National Commission on the Public Service. Headed by former Federal Reserve Board Chairman Paul Volcker, the blue ribbon eleven-member commission is seeking to produce a coherent and attainable agenda for human resources reform by the end of the year.



While Rehnquist and a number of other witnesses focused on the need for more competitive pay to attract and retain highly qualified and motivated people to staff the government, some academics and practitioners declared that innovations in workforce planning, hiring procedures, and career development were equally urgent. The Commission stated its intention earlier this year to fully utilize the research and articulated views of parties interested in HR reform rather than to begin anew the gathering of relevant information.

Appearing with a bipartisan panel of senators and representatives, Sen. Daniel Akaka (D-Hawaii) described "general agreement" on issues that emerged from two days of Governmental Affairs subcommittee hearings he chaired in March. Akaka cited:

- the pay and benefits gap between government and private workers,
- the lack of funding for recruitment and retention bonuses,
- the uneven application of performance standards,
- the need for better training for managers, and
- the Administration's application of outsourcing quotas.

Declaring that there is "no more important management reform than human capital," Comptroller General David Walker asserted that "the stars are aligned for real progress" at present. He recommended placing responsibility for reform in the hands of agency chief operating officers who would have term appointments with per-

formance contracts for five to seven years, and urged the Commission to focus on fixing the hiring and performance processes, holding executives responsible for goal achievement, and letting them manage more flexibly to dollar constraints rather than full time equivalent ceilings.

However, to illustrate the complexities in fashioning approaches to the issues, two witnesses cautioned that current data does not

support the existence of a system wide pay gap; a gap exists only in specific occupations and at senior levels. In another example, former Agriculture Department HRM Director Donna Beecher noted that 12 years after the beginning of a successful demonstration project that tested categorical ratings as an alternative to the much-maligned Rule-of-Three, almost all agencies, even within USDA, lack the necessary statutory authorization to adopt the innovation.

Volcker, speaking to a conference during the hearings, echoed Walker's conclusions that "the time is right for a fundamental reorganization of the federal government to meet the challenges of a new era." He said that the model needed for the 21st century was one that "will facilitate more flexible management, that will be more responsive to the potential and techniques of modern technology." Paul Light, director of governmental studies for the Brookings Institution, which supports the Commission's work, observed a significant contrast to the reception of the report of the first Volcker Commission more than a decade ago. "There was no constituency or support on the Hill or in the Administration then. We have some allies now," he stated.

Converting words to action, Commission witness Sen. George Voinovich (R-Ohio), perhaps the Senate's leading human capital reform advocate, attached a series of reform measures he had previously introduced separately, to the bill creating the Department of Homeland Security. Action on that bill is expected within the next few months.

OPM Circulates Draft Strategic Plan

Helpful Hints to Help Prospective Retirees Make the Best Choice

By David Hornestay



The Office of Personnel Management posted August 2 its draft strategic plan for the years 2002-2007 on its web site and invited comments and suggestions from “stakeholders” over the following two weeks. In the invitation, OPM Director Kay Coles James declared that the agency had worked “to reorient the direction of the agency to deploy strike forces to provide managers across Government the tools necessary to achieve their mission consistent with the President’s call for management reform.”

James pointed out that the draft focuses on OPM’s corporate human capital role and new responsibilities such as five e-Government initiatives and leadership of the Strategic Management of Human Capital element of the President’s Management Agenda. The Director’s Strategic Outlook section notes that, “It is not by accident that the strategic management of human capital is first” on that agenda.

The results to be attained by OPM are:

The results to be attained by OPM are:

- to achieve excellence in federal human capital practices;
- to ensure that agencies use effective merit-based human capital strategies that support mission accomplishment; and
- to meet the needs of agencies and the public through efficient and effective human capital products and services.

The three goals of the plan correspond to the results desired and are supported in turn by specific objectives with accompanying performance measures. In an example of the interaction envisioned by the web site posting, the draft proposes to measure improvement in the hiring process in part by increased applicant satisfaction. Stakeholders are invited to suggest the percentage increases to be attained in applicant satisfaction.

OPM used an unprecedented array of external program evaluations and survey results in developing the plan. The draft cites reports of the General Accounting Office, the Merit Systems Protection Board, the OPM Inspector General, Congressional committees, the National Academy of Public Administration, and the Partnership for Public Service, as well as study results of the American Customer Satisfaction Index and the Consumer Assessment of Health Plans. The plan commits OPM to “the continued use of the rich evaluation information developed by the external groups,” as well as its own survey data and informal feedback from other interested sources.

The draft plan is posted on the OPM web site at www.opm.gov/humancapital/draftstrategicplan/plan01.asp.

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